

Message Text

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SUBJECT: DISINCENTIVES TO INVESTMENT: EGYPTIANS COME UP WITH
A NEW ONE

1. GOE APPEARS TO BE ON VERGE OF CREATING MAJOR DISINCENTIVE
FOR NEW FOREIGN INVESTMENTS BY REQUIRING USE OF PARALLEL
MARKET FOR TRANSFER OF CERTAIN CATEGORIES OF PROFITS.

2. INVESTMENT LAW IS DESIGNED SO THAT FOREIGN INVESTMENTS
SHOULD NOT AS A RULE BECOME A BURDEN ON EGYPTIAN FOREIGN
EXCHANGE RESERVES AS RESULT OF THEIR ACTIVITIES. IN TERMS
OF PROFIT REPATRIATION, LAW ESTABLISHES TWO CATEGORIES OF
INVESTMENT FROM ABROAD. FIRST CONSISTS OF THOSE INVESTMENTS
GENERATING EXPORT EARNINGS, IN WHICH CASE PROFITS CAN BE
TRANSFERRED WITHOUT CONVERSION, BUT ONLY TO EXTENT THERE
IS SURPLUS REMAINING AFTER FULL RANGE OF OTHER FOREIGN EXCHANGE
EXPENDITURES HAVE BEEN MET (MACHINERY, MATERIALS, PRINCIPAL
AND INTEREST ON LOANS, ETC). THESE COMPANIES ARE THEREFORE
SELF-SUFFICIENT INsofar AS PROFITS ARE CONCERNED.

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3. SECOND CATEGORY INVOLVES INVESTMENTS WHICH HAVE NO EXPORT COMPONENT. COMPANIES ARE ESSENTIALLY CONCERNED WITH IMPORT SUBSTITUTION AND CAN THEREFORE BE CONSIDERED AS SAVING FOREIGN EXCHANGE. IN THIS CASE, APPROVAL OF PROJECT IMPLIES IT IS "OF MAJOR SIGNIFICANCE TO THE NATIONAL ECONOMY", AS REQUIRED BY LAW, BUT RULES FOR AND RATE OF PROFIT TRANSFER ARE SPECIFICALLY FIXED, I.E. NEGOTIATED, ON INDIVIDUAL BASIS.

4. OFFICIALS CONCERNED WITH THESE MATTERS HAVE ALWAYS BEEN VAGUE AS TO MECHANISMS WHICH WOULD BE EMPLOYED IN SUCH TRANSFERS, LEAVING SOME OBSERVERS (INCLUDING EMBOFFS) WITH IMPRESSION THAT USE OF PARALLEL MARKET FACILITIES WERE UNDER CONSIDERATION. SINCE THIS WOULD ENTAIL PAYMENT OF A 55 PERCENT SURCHARGE IN POUNDS WHEN MAKING CONVERSION TO HARD CURRENCY (I.E. 0.6 BUYS \$1 APPROX.), AND SINCE LAW REQUIRES INVESTMENTS TO BE CONVERTED AT THE OFFICIAL RATE (\$1 BUYS LE 0.4 APPROX), IT COULD HARDLY BE CONSIDERED AS CONDUCIVE TO A CLIMATE OF ENTHUSIASM AMONG POTENTIAL INVESTORS.

5. NEVERTHELESS, HIGHER ECONOMIC AND PLANNING COMMITTEE HAS EVIDENTLY FAVORABLY CONSIDERED A PROPOSAL TO UTILIZE PARALLEL MARKET FOR PROFIT TRANSFERS BY DOMESTICALLY-ORIENTED INVESTMENTS AND HAS FORWARDED IT TO COUNCIL OF MINISTERS FOR APPROVAL, WHERE IT IS REPORTED TO HAVE A GOOD CHANCE OF ADOPTION. (AUTHOR OF PROPOSAL, OR AT LEAST INDIVIDUAL WHO PLACED IT BEFORE COUNCIL, IS MINISTER FOR ECONOMIC COOPERATION TAHER AMIN.)

6. COMMENT: NEGATIVE IMPACT OF SUCH A MOVE HAS NOT BEEN LOST ON MAY WORKING-LEVEL GOE OFFICIALS, EVEN BEARING IN MIND PRESENT CRITICAL FOREIGN EXCHANGE SITUATION (WHICH IS LIKELY TO LAST FOR SOME TIME). IN CONVERSATIONS WITH EMBOFFS, THEY HAVE UNIFORMLY EXPRESSED THEIR CONCERN OVER LIKELY RESULTS, BUT ARE APPARENTLY UNABLE TO CONCEIVE OF MEANS TO PREVENT IT.

7. INTERESTINGLY ENOUGH, MEMBERS OF PEOPLE'S ASSEMBLY WITH WHOM WE HAVE DISCUSSED SUBJECT ARE UNIVERSALLY OPPOSED TO IDEA. IN FACT, BUDGET AND PLANNING COMMITTEE MEMBERS SAY THEY HAVE BEEN ACTIVELY CONSIDERING A BILL LIMITED OFFICIAL USE

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TO MODIFY INVESTMENT LAW TO PROVIDE THAT INVESTMENTS ENTER COUNTRY AT PARALLEL RATE.

8. IF ABOVE MODIFICATION SHOULD BE MADE, IT WOULD OF COURSE FULLY OFFSET PROBLEMS GENERATED BY USE OF SAME RATE FOR PROFIT REPATRIATION. ADDITIONALLY, IT WOULD SERVE TO REDUCE CONCERNS OVER EVENTUAL "DEVALUATION" OF POUND BY EXPANSION OF PARALLEL MARKET TO INCLUDE ALMOST ALL

TRANSACTIONS WITH REST OF WORLD.IT IS UNCLEAR WHICH OF
TWO ACTIONS CONCERNING INVESTMENTS IS MORE LIKELY TO TAKE
PLACE FIRST IF AT ALL. EMBASSY WILL CONTINUE TO FOCUS ATTENTION
OF EGYPTIANS ON RESPECTIVE ADVANTAGES AND DISADVANTAGES OF
EACH.
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